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In the
Supreme Court of the United States

OCTOBER TERM, 1978

No. 78-1321

A. T. CROSS COMPANY,
PETITIONER,

v.

THE QUILL COMPANY, INC.,
RESPONDENT

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

Brief in Opposition to Petition for a Writ of Certiorari

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Pet. — Cross' Petition for Certiorari
Pet. App. A. — Appendix A to the Petition for Certiorari, Opinion of District Court
Pet. App. B. — Appendix B to the Petition for Certiorari, Opinion of Court of Appeals
Pet. App. D. — Appendix D to the Petition for Certiorari, Judgment of District Court

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COUNTERSTATEMENT OF THE QUESTION PRESENTED

The question presented to this Court for review is not that stated in the Petition, which Cross* has premised on "facts" which do not appear in the record and which were not found by the District Court.** Instead, the question presented is this:

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*We adopt the same abbreviations for the parties that Cross uses in its Petition.

**There was no evidence in the record, nor did the District Court find (a) that the public would be "defrauded" by Second Quill's manufacture and

Is an agreement settling a trademark infringement action — an unambiguous agreement for which valid consideration had been given and received — enforceable against a party to the agreement, even though it is likely that some unintended [Pet. App. A/30a, 31a], harmless [Pet. App. A/31a] confusion to the public will result?

Or, more specifically put:

Where Cross had, by an agreement (the "Settlement Agreement") settling a trademark infringement and unfair competition action which it had brought against First Quill, agreed not to sue First Quill and its assigns for trademark infringement or unfair competition if they were to manufacture and sell the allegedly infringing writing instruments, may Cross, notwithstanding its enjoyment of the benefits of the Settlement Agreement for more than ten years, bring an action of trademark infringement and unfair competition against Second Quill, an assignee of First Quill, for manufacturing and selling writing instruments legally identical to the permitted instruments on the ground that the sale of such instruments is likely to cause some insignificant, unintended confusion as to the source of those instruments and that, therefore, it would be against public policy to hold Cross to its obligations under the Settlement Agreement?

COUNTERSTATEMENT OF THE CASE

Cross' statement of the case is both too abbreviated and too partisan. For example, Cross says [Pet./3]:

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sale of the very writing instruments which Cross had expressly agreed that First Quill and its successors and assigns could manufacture and sell without interference by Cross; (b) that the action which had been settled by the Cross-First Quill Settlement Agreement was a "dying" action; (c) that T & T was a "repetitive infringer"; or (d) that T & T had purchased First Quill's rights under the Settlement Agreement "to justify the present infringement."

> "The sale of the infringing goods being *de minimis*, if any, Cross and First Quill in 1967 disposed of the case by the '1967 Settlement Agreement' in which First Quill was permitted to sell pens bearing the infringement."

There is no evidence in the record, nor is there a finding of the District Court, that the parties entered into the Settlement Agreement because First Quill's sales had been "*de minimis*."* Further, by the Settlement Agreement First Quill and its assigns were permitted not only to sell but to manufacture writing instruments conceded by Cross to be legally identical to those which by its counterclaim Cross now seeks to enjoin Second Quill from manufacturing and selling. In the words of the District Court [Pet. App. A/26a-27a], by the Settlement Agreement First Quill

> "got . . . a contract right to be free of suit even if it manufactured and sold certain specified writing instruments, together with the right to assign the benefits under the agreement to its 'successors in business and assigns'. The settlement agreement has no provision conditioning First-

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*In fact, there was introduced at trial no evidence of the quantum of First Quill's sales. The president of First Quill testified under cross-examination by Cross' counsel [App. II/34-35] that his company still had available the records of First Quill's sales for each of the years 1965 through 1968; but Cross never requested that the records be produced, and its counsel did not even ask the witness any question as to the amount of First Quill's sales during that period. Cross' "*de minimis*" assertion was apparently an attempt both to explain away its failure to adduce any evidence of actual consumer confusion and also to suggest that Cross had been willing to enter into the Settlement Agreement only because of its expectation — which it never expressed to First Quill — that First Quill would not be making substantial sales thereafter. Evidence of such expectation on Cross' part was, of course, inadmissible. *Flanagan* v. *Kelly's System of New England, Inc.*, 109 R.I. 388, 392, 286 A. 2d 249, 251 (1972).

Quill's assignable right to be free of suit for the manufacture and sale of writing instruments, like exhibits C, D and F, only if it maintained a certain level of business activity with respect to pens. To so hold would be to read into the contract that which does not exist."

Cross omits entirely from its statement any reference to the following highly relevant findings of the District Court:

(1) The Settlement Agreement was "not formed with any intent to deceive the public" [Pet. App. A/30a].

(2) There are differences between the Cross trademark and the Quill top [Pet. App. A/14a] and also between the "dress" of the Cross instruments and that of the Quill instruments [Pet. App. A/17a-18a].

(3) Any harm to the public which may result from the sale of Second Quill's writing instruments is "not significant" [Pet. App. A/31a].

(4) "Cross chose not to test the validity of its mark," and that is why it entered into the Settlement Agreement with First Quill [Pet. App. A/26a].

(5) By entering into the Settlement Agreement "Cross voluntarily contracted with First-Quill in a way which allowed for the possibility of confusion" [Pet. App. A/31a] and "has consented to the Second Intervenor's acts of which . . . [it] complains in its counterclaim against the Second Intervenor" [Pet. App. D/47a].

(6) First Quill's benefits under the Settlement Agreement (i.e., not to be sued by Cross for trademark infringement and unfair competition if it were to manufacture and sell writing instruments of the kind which Second Quill is now manufacturing and selling) were validly assigned by First Quill to T & T and from T & T to Second Quill [Pet. App. D/47a].

An accurate and fair statement of the proceedings below and the facts relevant to the question here presented for review is found in the opinion of the Court of Appeals [Pet. App. B/34a-38a].

REASONS FOR DENYING THE WRIT

The Decision of the First Circuit Court of Appeals is Sound, and it Does Not Conflict with the Decisions of Any Other Circuit.

A. The Binding Resolution of Trademark Disputes by Agreements Like the Settlement Agreement in This Case is Favored by the Law.

Cross and First Quill entered into the Settlement Agreement "to settle all claims involved in" [App. III/2] the trademark infringement and unfair competition suit which Cross had brought against First Quill in 1965 and in defense of which First Quill denied the validity of Cross' trademark and infringement. Cross benefitted from the settlement: its legal expenses were curtailed; it secured First Quill's promise not to come any closer to infringing Cross' trademark than it had been doing; and the challenge to the validity of its trademark was put off indefinitely. Thus there was unquestionably adequate consideration for Cross' promise not to sue First Quill so long as it manufactured and sold no instruments closer in appearance to Cross' than the ones which First Quill had been claiming the right to manufacture and sell. The Settlement Agreement, then, effected the resolution of a trademark dispute, which is, of course, a result which all federal courts strongly approve.

Danskin, Inc. v. *Dan River, Inc.* 498 F. 2d 1386 (C.C.P.A. 1974) [summary judgment];

Li'l' Red Barn Inc. v. *The Red Barn System, Inc.*, 322 F. Supp. 98, 113-114 (N.D. Ind. 1970), *aff'd*, 174 U.S.P.Q. 193 (7th Cir. 1972) [expressly adopting District Court's opinion].

See also *The Aro Corp.* v. *Allied Witan Co.*, 531 F. 2d 1368, 1372 (6th Cir. 1976), *cert. den.* 429 U.S. 862 (1976) [patent infringement; summary judgment];

Beer Nuts, Inc. v. *King Nut Co.*, 477 F. 2d 326, 328 (6th Cir. 1973), *cert. den.* 414 U.S. 858 (1973), *reh. den.* 414 U.S. 1033 (1973) [summary judgment];

E.F. Prichard Co. v. *Consumers Brewing Co.*, 136 F. 2d 512, 522 (6th Cir. 1943), *cert. den.* 321 U.S. 763 (1943).

The District Court below correctly recognized [Pet. App. A/32a, n.6] that, in view of its

> "finding that Cross is prohibited from suing Second-Quill, the Court would have been justified in not deciding the questions of validity or infringement."

It seems somehow ironic that, if the Court had not, in the interest of "judicial economy," heard evidence on the issue of infringement, it would never have reached the question of possible public confusion, and Cross would not now be in a position to advance its argument that it would be against public policy to enforce the Settlement Agreement.

B. Cross Should Not be Heard to Challenge on Appeal the Validity of the Settlement Agreement on the Ground that Enforcement of it Would be Against Public Policy.

Cross states [Pet./9] that

> "Courts will not enforce an agreement which will result in a tort, a fraud or violation of a statute,"

and, quoting from the Court's opinion in

> *Marshall* v. *Baltimore & Ohio R.R. Co.*, 57 U.S. (16 How.) 314, 334 (1853),*

that

> "[i]t is an undoubted principle of the common law that it will not lend its aid to enforce a contract to do an act that is *illegal*. [Emphasis supplied.]"

We submit that the Courts below should not have even considered Cross' defense of illegality (or contra public policy), because (1) it has waived the defense by not pleading it; (2) it has conceded that the Settlement Agreement is valid; and (3) as a willing party to the Settlement Agreement, it should not be permitted to challenge the validity of the Agreement.

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* The *Marshall* case involved a contract to lobby secretly with legislators to influence them to adopt legislation desired by the defendant, a practice which the Court called (at p. 336) "immoral and fraudulent" and "a misdemeanor at common law."

1. *The Defense of Illegality (or Contra Public Policy) is an Affirmative Defense Which Cross, by Not Pleading it, has Waived.*

Rule 8 (c) of the Federal Rules of Civil Procedure provides as follows:

> "**Affirmative Defenses.** In pleading to a preceding pleading, a party shall set forth affirmatively accord and satisfaction, arbitration and award, assumption of risk, contributory negligence, discharge in bankruptcy, duress, estoppel, failure of consideration, *fraud, illegality*, injury by fellow servant, laches, license, payment, release, res judicata, statute of frauds, statute of limitations, waiver, and *any other matter constituting an avoidance or affirmative defense*. [Emphasis supplied.]"

Affirmative defenses not pleaded are deemed to be waived and may not be asserted or relied upon on appeal.

> *Badway* v. *United States*, 367 F. 2d 22, 24-25 (1st Cir. 1966).

In the instant case Cross pleaded neither fraud nor illegality as a defense to Second Quill's complaint [see App. I/77-79]. Any such defense has therefore been waived by Cross, should not have been considered by the Courts below, and should not now be considered by this Court.*

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*If the Settlement Agreement were "intrinsically . . . vicious in its character and tendency, and . . . repugnant to all our notions of right and morality," the Court could *sua sponte* give it "no countenance." *Oscanyan* v. *Arms Co.*, 103 U.S. 261, 278 (1880). But an agreement to settle a trademark controversy which might result in some harmless, unintended confusion as to source could scarcely qualify as such a morally offensive contract.

> *John R. Lewis, Inc.* v. *Newman*, 446 F. 2d 800, 805 (5th Cir. 1971);
> *Radio Corporation of America* v. *Radio Station KYFM, Inc.*, 424 F. 2d 14, 17, 18 (10th Cir. 1970).

2. *Cross is Bound by its Counsel's Concession in his Opening Statement that the Settlement Agreement is Valid.*

In the course of Cross' counsel's opening statement at trial the following colloquy took place [App. II/5-6]:

> "The Court: . . . you seem to be attacking the validity of the agreement itself.
> "Mr. Taggart: *No, sir.*
> "The Court: . . . if this was a valid agreement with the Quill Company —
> "Mr. Taggart: Right.
> "The Court: Whereby they could continue to manufacture Exhibit C.
> "Mr. Taggart: Surely, your Honor.
> * * * * * * *
> "Mr. Taggart: If First Quill Company had reversed its position and developed this and got into the market and then had continued to make that pen —
> "The Court: Now, First Quill, you're referring to the same Quill who signed this agreement?
> "Mr. Taggart: Right. *If they had continued we would not be in a position to stop them today.* [Emphasis supplied.]"

Cross is bound by the concessions made in counsel's opening statement that the Settlement Agreement is valid and that, if

First Quill had continued to manufacture and sell the writing instruments which the Settlement Agreement permitted it to manufacture and sell, Cross could not have prevented it from doing so.

Oscanyan v. *Arms Co.*, 103 U.S. 261, 263 (1880), *supra;*
Clark & Wilson Lumber Co. v. *McAllister*, 101 F. 2d 709, 713 (9th Cir. 1939).

3. *Cross Should Not be Permitted to Challenge the Settlement Agreement as Putative Champion of the Public Interest.*

Cross was a willing party to the Settlement Agreement. It would be anomalous if Cross, as putative champion of the public interest, were now permitted to challenge the validity of the Agreement. As the Court in

The Aro Corp. v. *Allied Witan Co.*, 531 F. 2d 1368 (6th Cir. 1976), *cert. den.* 429 U.S. 862 (1976), *supra,*

said (at p. 1373):

> "The 'defender of the public interest' role is not available to him who would frustrate on whim the orderly conclusion of litigation."

In the same vein, in this case the Court of Appeals said [Pet. App. B/43a-44a]:

> "As a final observation, we note that Cross originally entered into the Settlement Agreement with full knowledge of a potential for immediate public confusion between its products and those of First Quill. Now, some eleven years later, Cross seeks to disaffirm the Agreement on the basis of public confusion — the same basis it was instrumental in bringing about in the first place. It appears at best incongruous that a party should be permitted to disaffirm a contract as against public policy when such grounds are the very grounds that the party itself knowingly and willingly helped to create."

C. Even if it Was Appropriate for the Courts Below to Consider Cross' Contention that Enforcement of the Settlement Agreement Would be Against Public Policy, it is a Contention Which Both of Those Courts Correctly Rejected and Which is Not Deserving of This Court's Review.

The District Court considered whether enforcement of the Settlement Agreement would be against public policy and concluded that it would not [Pet. App. A/27a-31a]. The Court of Appeals reached the same conclusion [Pet. App. B/40a-43a]. We submit (1) that, for the reasons stated under Point B, above, the Courts below should not have even considered the question, but (2) that, so long as they did consider it, they reached the correct conclusion — one which is not only supported but virtually compelled by both reason and the authorities.

In all of the cases upholding agreements settling trademark controversies it is at least implicit that it would not be contrary to public policy to hold the parties to their bargain.* In a

* See, e.g., the cases cited at page 6, *supra*.

number of such cases the Court has explicitly considered the public interest and in each instance has concluded, as did the District Court in this case, that the settlement agreement should be enforced. See, e.g.,

Beer Nuts, Inc. v. *King Nut Co.*, 477 F. 2d 326, 328-329 (6th Cir. 1973), *cert. den.* 414 U.S. 858 (1973), *reh. den.* 414 U.S. 1033 (1973), *supra*;

Union Tank Car Co. v. *Lindsay Soft Water Corp. of Omaha, Inc.*, 257 F. Supp. 510, 514 (D. Neb. 1966), *aff'd*, 387 F. 2d 477 (8th Cir. 1967).

See also *The Aro Corp.* v. *Allied Witan Co.*, 531 F. 2d 1368 (6th Cir. 1976), *cert. den.* 429 U.S. 862 (1976), *supra*;

Danskin, Inc. v. *Dan River, Inc.*, 498 F. 2d 1386, 1388 (C.C.P.A. 1974), *supra*;

Application of E.I. DuPont DeNemours & Co., 476 F. 2d 1357, 1364 (C.C.P.A. 1973).

In the *Aro* case, *supra*, the Court affirmed the summary judgment below on the ground that the terms of a previous agreement and license between the parties settling claims of patent infringement and unfair competition were valid and enforceable as a matter of law. The Court said (at p. 1372):

> "Agreements settling litigation are solemn undertakings, invoking a duty upon the involved lawyers, as officers of the court, to make every reasonable effort to see that agreed terms are fully and timely carried out. *Public policy strongly favors settlement of disputes without litigation*. Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. *Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit*. By such agreements are the burdens of trial spared to the parties, to other litigants waiting their turn before over-burdened courts, and to the citizens whose taxes support the latter. An amicable compromise provides the more speedy and reasonable remedy for the dispute . . . [Emphasis supplied.]"

The interest of the public in being free from confusion as to the source of consumer products is not the only public interest involved in this case. As the District Court pointed out [Pet. App. A/29a-30a]:

> "The Court must also add into this balance the interest in encouraging extra-judicial settlement of trademark litigation. Insisting that a court review a settlement to assure that no public confusion will result would make such agreements of little value to the parties. Parties would sensibly conclude that they might better litigate the issue of confusion to conclusion rather than reach a settlement which might later be found to be unenforceable. Such a premium on litigation would lead to a further drain on judicial resources."

With all respect, we submit that this Court, and all courts, when considering the contention of a party seeking to avoid his obligations under an agreement on the ground that the agreement is against public policy, should take very seriously the admonition of the Court in

Diamond Match Co. v. *Roeber*, 106 N.Y. 473, 482, 13 N.E. 419, 422 (1887),

as follows:

> "[W]hat public policy requires is often a vague and difficult inquiry. It is clear that public policy and the interests of society favor the utmost freedom of contract within the law, and require that business transactions should not be trammeled by unnecessary restrictions. 'If,' said Sir George Jessel in *Printing Co.* v. *Sampson*, L.R. 19 Eq. 462, 'there is one thing more than any other which public policy requires, it is that men of full age and competent understanding shall have the utmost liberty of contracting, and that contracts, when entered into freely and voluntarily, shall be held good, and shall be enforced by courts of justice.'"

The District Court noted [Pet. App. A/28a] that neither counsel nor the Court could find any

> "law prohibiting a trademark holder, wishing to avoid a legal judgment, from promising a competitor not to sue for trademark infringement and contracting with it to make this promise assignable without a limitation of time or a requirement of continuing business operation."

The Court of Appeals found no case so holding, and, judging from Cross' instant Petition, Cross still cannot find one. *A fortiori*, Cross has been unable to find any case in which an agreement settling a trademark infringement controversy has been held unenforceable because of some unintended, harmless confusion to the public.

Cross has cited [Pet./10-13] only three cases in supposed support of its contention that, if the public is likely to be subject to any confusion as to the source of Second Quill's writing instruments, it would be against public policy to enforce the Settlement Agreement:

> *Application of E.I. DuPont DeNemours & Co.*, 476 F. 2d 1357 (C.C.P.A. 1973), *supra;*
>
> *Waukesha H. M. Springs Co.* v. *Hygeia Sparkling Distilled Water Co.*, 63 Fed. 438 (7th Cir. 1894); and
>
> *Peyrat* v. *L. N. Renault & Sons, Inc.*, 247 F. Supp. 1009, 1014 (S.D. N.Y. 1965).

None of those cases so holds. On the contrary, in each of those cases an agreement settling a trademark controversy was held to be enforceable against a party seeking to avoid it.

The court in *Peyrat* recognized that there might be *some* public confusion as to source of the parties' products, but not enough to injure the public or to permit the inequity of holding (see p. 1013) that the plaintiff had unjustifiably relied on its agreement with the defendant.

Cross' assertion [Pet./9] that

> "the statute (the Lanham Act) requires an injunction against infringement"

is specious. Under the Lanham Act, the user of a colorable imitation of another's registered trademark is liable in a civil action to the registrant only if the use was

"without the consent of the registrant."*

By the Settlement Agreement Cross gave its consent to First Quill and its assigns.

With respect to the likelihood of confusion, Second Quill chose not to appeal from the District Court's judgment of infringement; but if, as the District Court obviously believed, the degree or extent of confusion likely to occur must be weighed in determining whether parties should be held to a settlement agreement even though *some* consumer confusion is likely, certain facts in this case deserve emphasis:

1. There are differences between the Cross and Second Quill tops, which the District Court remarked both at trial [App. II/288-289] and in its opinion [Pet. App. A/14a].

2. There was adduced at trial no evidence whatever of actual confusion on the part of the buyers or other consumers [Pet. App. B/42a, n.3].

See *Mishawaka Rubber & Woolen Mfg. Co.* v. *Panther-Panco Rubber Co.*, 153 F. 2d 662, 665 (1st Cir. 1946), *cert. den.* 329 U.S. 722 (1946), *reh. den.* 329 U.S. 826 (1946), *motion for leave to file second petition for reh. den.* 331 U.S. 868 (1947).

If the likelihood of consumer confusion were at all significant, surely Cross would have introduced evidence of at least one instance of such confusion occurring between 1965 and the time of trial.**

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*See 15 U.S.C.A. § 1114 (1) [Pet./2].

**In what would appear to be another (see page 3, *supra*) attempt to explain away the absence of any actual consumer confusion, Cross states ambiguously [Pet./4], "there was proof [at trial] of only *pro forma* sales [by Second Quill]." Cross' statement could be interpreted to mean that it was proven at trial that Second Quill's sales had been only nominal in amount. In fact, however, neither party introduced any evidence of the quantum of Second Quill's sales. If Cross had regarded such evidence as relevant, it could have made appropriate inquiry of Second Quill's president, John Bedford, who testified at some length under direct examination [App. II/244-279]. Cross, however, waived cross-examination of Mr. Bedford [App. II/279].

3. In view of the pronounced differences in packaging and marketing of the parties' writing instruments,* it is, we submit, virtually inconceivable that a purchaser — as contrasted with a nonpurchasing user — could buy a Quill writing instrument in the mistaken belief that he was buying a Cross writing instrument.

See *Swank, Inc.* v. *Anson, Inc.*, 104 F. Supp. 703, 710, 711 (D. R.I. 1951), *aff'd*, 196 F. 2d 330 (1st Cir. 1952).

With respect to the likelihood of confusion on the part of nonpurchasing users, it is true, as the District Court noted [Pet. App. A/20a], that by amendment in 1962 the Lanham Act no longer requires that the confusion requisite to a finding of trademark infringement be that of a purchser;** but, nevertheless, the likelihood of public confusion and public injury is, of course, significantly reduced by the distinctive Quill

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*These differences relate to the displays in which the writing instruments are exhibited for sale, the individual boxes in which they are packaged, the guarantees enclosed in the boxes, and the clips on the instruments themselves. In each instance where a Quill instrument is involved, Quill's name appears [Pet. App. A/17a-18a].

**Were it not for that amendment, the differences in dress employed by Quill would probably be sufficient, without more, to defeat Cross' trademark infringement claim in this case. See *Goldsmith Silver Co.* v. *Savage*, 229 Fed. 623, 627 (1st Cir. 1915); *Walgreen Drug Stores* v. *Obear-Nester Glass Co.*, 113 F. 2d 956 (8th Cir. 1940), *cert. den.* 311 U.S. 708 (1940), *reh. den.* 311 U.S. 730 (1940).

markings on its display cases, individual boxes, guarantees, and clips.

4. Where the owner of a trademark consents to another's concurrent use of a similar mark, that is of itself persuasive evidence that there is little likelihood of confusion on the part of the public.

> *Application of E.I. DuPont DeNemours & Co.*, 476 F. 2d 1357, 1362 (C.C.P.A. 1973), *supra*;
>
> *Swedish Beer Export Co. Aktiebolag* v. *Canada Dry Corp.*, 469 F. 2d 1096, 1097 (C.C.P.A. 1972).

That is especially true where, as in this case, the consent is expressed in an agreement settling an infringement action between the parties.

> *Croton Watch Co.* v. *Laughlin*, 208 F. 2d 93, 96 (2d Cir. 1953).

As the Court in the *DuPont* case said (at p. 1363):

> "[W]hen those most familiar with use in the marketplace and most interested in precluding confusion enter agreements designed to avoid it, the scales of evidence are clearly tilted. It is at least difficult to maintain a subjective view that confusion will occur when those directly concerned say it won't. A mere *assumption* that confusion is likely will rarely prevail against uncontroverted evidence from those on the firing line that it is not. [Emphasis the Court's.]"

CONCLUSION

The District Court found [Pet. App. A/31a], and the Court of Appeals agreed [Pet. App. B/42a, 43a, 44a], that any harm to the public resulting from confusion as to the source of Second Quill's writing instruments would be insignificant. Under these circumstances, the Courts below were correct in holding that the Settlement Agreement should be enforced. For this reason, and for the other reasons set forth above, this Court should decline to review this case by writ of certiorari.

Respectfully submitted,

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